

# **OTTAWA COUNTY ROAD COMMISSION**

**(A Component Unit of Ottawa County)**

**Ottawa County, Michigan**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**



*Vredeveld Haefner LLC*

**OTTAWA COUNTY ROAD COMMISSION**  
**(A Component Unit of Ottawa County)**

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### **INDEPENDENT AUDITORS' REPORT**

February 27, 2009

Ottawa County Road Commission  
Board of Commissioners  
Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund for the Ottawa County Road Commission as of September 30, 2008, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, on our consideration of the Ottawa County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ottawa County Road Commission's basic financial statements. The general fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The general fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Orlando Haefner LLC*

## Management's Discussion and Analysis

As management of the Ottawa County Road Commission (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- Michigan transportation revenues were down 2.6% from last year, the third year in a row of reduced revenues.
- Federally funded projects continued to be approved for Ottawa County resulting in over \$3 million in additional expenditures over 2007.
- Townships continued to support local road improvement projects despite reduced Michigan transportation revenues at the local level.
- Continued increases in healthcare and pension costs continue to pose a challenge to operating budgets.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and governmental funds balance sheet on a single page and the statement of activities and governmental funds revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Note that Ottawa County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements in a separately issued comprehensive annual financial report.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financially accountable.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on long-term debt).

Both of the government-wide financial statements display functions of the Commission that are principally supported by intergovernmental revenues (*governmental activities*). The governmental

activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Ottawa County. The Commission does not have any business-type activities.

In this report, financial information for the Commission is reported separately from the financial information presented for Ottawa County which reports the Commission as a component unit.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission only utilizes and presents a general fund. The Commission does not utilize proprietary or fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be major fund.

The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this management discussion and analysis. General fund schedules are presented as supplementary information.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$171,327,107 at the close of the most recent fiscal year.

The most significant portion of the Commission's net assets reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission's capital assets consist of road infrastructure and capital assets used to construct and maintain this infrastructure; consequently, these assets are *not* available for future spending. Although the Commission investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<b>Governmental Activities</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Assets</b>		
Current assets	\$11,413,889	\$10,896,147
Noncurrent assets		
Capital assets	165,723,637	156,030,282
<b>Total assets</b>	<b>177,137,526</b>	<b>166,926,429</b>
<b>Liabilities</b>		
Current liabilities	2,915,451	2,805,205
Long-term liabilities	2,894,968	3,556,650
<b>Total liabilities</b>	<b>5,810,419</b>	<b>6,361,855</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	163,874,097	153,320,252
Restricted	3,604,049	4,369,991
Unrestricted	3,848,961	2,874,331
<b>Total net assets</b>	<b>\$171,327,107</b>	<b>\$160,564,574</b>

Net assets of the Commission increased by \$10,762,533. The increase in net assets is primarily the result of the timing difference between when infrastructure is purchased and when depreciation is recorded on the infrastructure.

	<b>Governmental Activities</b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Revenue</b>		
Program revenue		
Charges for Services	\$8,823,880	\$8,299,444
Operating grants and contributions	15,802,755	16,226,778
Capital grants and contributions	9,240,186	6,004,379
General revenue		
Interest income	139,561	165,398
Gain on sale of capital assets	180,043	204,802
Other	634,332	300,739
<b>Total revenue</b>	<b>34,820,757</b>	<b>31,201,540</b>
<b>Expenses</b>		
Public works	23,956,437	21,143,896
Interest	101,787	105,124
<b>Total expenses</b>	<b>24,058,224</b>	<b>21,249,020</b>
Increase (decrease) in net assets	10,762,533	9,952,520
<b>Net assets, beginning of year</b>	<b>160,564,574</b>	<b>150,612,054</b>
<b>Net assets, end of year</b>	<b>\$171,327,107</b>	<b>\$160,564,574</b>

## Governmental activities

During the year the Commission reported approximately 38% of its total expenses for depreciation of capital asset and less than .4% for interest expense. The remaining 61% of total expenses was for public works activities.

## Financial Analysis of the Government's Funds (General fund)

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Commission's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Commission's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Commission's general fund reported combined ending fund balances of \$8,497,438, an increase of \$406,496 in comparison with the prior year. This increase is primarily the result of the timing of road construction activities and receipt of fuel taxes.

The general fund is the chief operating fund of the Commission. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$4,848,879. As a measure of the general fund's liquidity, it is important to note that the general fund operates primarily on operating and capital grant funding.

## General Fund Budgetary Highlights

Differences between the General Fund original and final amended budgets were primarily the result of reduced Michigan transportation funding, timing of federal aid projects funding primary road construction and additional township construction activities exceeding initial expectations..

## Capital Asset and Debt Administration

**Capital assets.** The Commission's investment in capital assets for its governmental activities as of September 30, 2008 amounted to \$165,724,637 (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- Approximately \$18 million of road infrastructure.
- Approximately \$800,000 of replacement equipment.

The Commission's capital assets (net of depreciation) are summarized as follows:

	<b>Governmental Activities</b>
Land and right-of-way	\$ 1,367,182
Buildings and equipment	10,768,827
Infrastructure	<u>153,588,628</u>
<b>Total</b>	<b><u>\$165,724,637</u></b>

Additional information on the Commission's capital assets can be found in Note 4 of this report.



**Debt.** At the end of the current fiscal year, the Commission had outstanding long-term debt as follows:

	<b><u>Governmental Activities</u></b>
Bonds and installment purchases	\$1,850,540
Claims	197,173
Post employment benefits liability	169,346
Compensated absences	<u>677,909</u>
<b>Total</b>	<b><u>\$2,894,968</u></b>

Additional information on the Commission's long-term debt can be found in Note 5 of this report.

#### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Commission's budget for the 2008-2009 fiscal year:

- Michigan Department of Transportation estimated fuel tax receipts to decline by 4% from 2008 levels.
- Federal aid projects are expected to decline based on state approvals.
- Employee benefit costs are expected to significantly increase from 2008 levels.
- Township participation in the local road program is expected to decrease based on fewer township commitments.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ottawa County Road Commission, Finance Director, PO Box 739, Grand Haven, Michigan 49417.

## **BASIC FINANCIAL STATEMENTS**

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**

**SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and investments	\$ 3,529,293	\$ -	\$ 3,529,293
Accrued interest	13,719	-	13,719
Receivables			
State trunk line maintenance	217,709	-	217,709
Due from local units of government	2,808,766	-	2,808,766
Motor vehicle highway funds	2,747,189	-	2,747,189
Other	745,569	-	745,569
Inventories			
Equipment, material, and parts	258,756	-	258,756
Road materials	766,683	-	766,683
Prepaid insurance	325,205	-	325,205
Capital assets			
Land and right-of-way	-	1,367,182	1,367,182
Property and equipment, net	-	10,768,827	10,768,827
Infrastructure net	-	153,588,628	153,588,628
<b>Total assets</b>	<u>\$ 11,412,889</u>	<u>165,724,637</u>	<u>177,137,526</u>
<b>Liabilities</b>			
Accounts payable	\$ 1,381,489	-	1,381,489
Accrued liabilities	557,002	-	557,002
Advances			
State trunk line equipment purchase	707,532	-	707,532
State trunk line maintenance	254,094	-	254,094
County drain special assessments payable	15,334	-	15,334
Noncurrent liabilities			
Due within one year	-	526,257	526,257
Due in more than one year	-	2,368,711	2,368,711
<b>Total liabilities</b>	<u>2,915,451</u>	<u>2,894,968</u>	<u>5,810,419</u>
<b>Fund balance</b>			
Reserved			
Inventory	1,025,439	(1,025,439)	-
Prepaid insurance	325,205	(325,205)	-
Unreserved			
Designated for commitments	2,297,915	(2,297,915)	-
Undesignated	4,848,879	(4,848,879)	-
<b>Total fund balance</b>	<u>8,497,438</u>	<u>(8,497,438)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 11,412,889</u>		
<b>Net Assets</b>			
Invested in capital assets, net of related debt		163,874,097	163,874,097
Restricted		3,604,049	3,604,049
Unrestricted		3,848,961	3,848,961
<b>Total net assets</b>		<u>\$ 171,327,107</u>	<u>\$ 171,327,107</u>

The accompanying notes are an integral part of these financial statements.

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2008**

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<b>Fund balances - total governmental funds</b>	<b>\$ 8,497,438</b>
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Amounts reported for *governmental activities* in the statement of net assets  
are different because

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add - capital assets (net)	165,724,637
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Certain liabilities, such as bonds, installment purchase agreements, compensated absences, and  
claims payable, are not payable in the current period and therefore are not reported in the funds.

Deduct - bonds and installment purchase agreements payable	(1,850,540)
Deduct - compensated absences payable	(677,909)
Deduct - post employment benefit liability	(169,346)
Deduct - claims payable	<u>(197,173)</u>

<b>Net assets of governmental activities</b>	<b><u>\$ 171,327,107</u></b>
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The accompanying notes are an integral part of these financial statements.

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures/expenses</b>			
Public works	\$ 15,505,892	\$ 8,450,545	\$ 23,956,437
Capital outlay	17,998,409	(17,998,409)	-
Debt service			
Principal	670,026	(670,026)	-
Interest	101,787	-	101,787
<b>Total expenditures/expenses</b>	<u>34,276,114</u>	<u>(10,217,890)</u>	24,058,224
<b>Program revenues</b>			
Charges for services			
Townships	5,237,305	-	5,237,305
State trunk line	3,586,575	-	3,586,575
Operating grants and contributions			
State transportation funds	15,802,755	-	15,802,755
Capital grants and contributions			
Federal and state sources	9,240,186	-	<u>9,240,186</u>
Net program revenue			<u>33,866,821</u>
<b>General revenue</b>			
Interest earned	139,561	-	139,561
Salvage sales	26,485	-	26,485
Other	327,997	-	327,997
<b>Other financing sources</b>			
Proceeds/gain from disposal of capital assets	41,896	138,147	180,043
Sales of land	279,850	-	<u>279,850</u>
<b>Total revenues and other financing sources</b>	<u>34,682,610</u>		
<b>Total general revenue</b>			<u>953,936</u>
<b>Change in fund balance/net assets</b>	406,496	10,356,037	10,762,533
<b>Fund balances/net assets, beginning of year</b>	<u>8,090,942</u>	<u>152,473,632</u>	<u>160,564,574</u>
<b>Fund balances/net assets, end of year</b>	<u>\$ 8,497,438</u>	<u>\$ 162,829,669</u>	<u>\$ 171,327,107</u>

The accompanying notes are an integral part of these financial statements.

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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<b>Net changes in fund balances - general fund</b>	<b>\$</b>	<b>406,496</b>
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	18,782,677
Deduct - depreciation expense	(9,037,005)
Deduct - net book value of capital assets disposals	(51,317)

Bond and lease purchase agreements provide current financial resources to governmental funds in the period issued, but issuance increases long-term liabilities in the statement of net assets. Repayment of bond or installment purchase principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on notes payable	670,026
Add - unexercised capital lease purchase option	189,464

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - decrease in compensated absences	45,548
Add - increase in post employment benefit liability	(169,346)
Add - increase in claims payable	(74,010)

<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>10,762,533</u></b>
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The accompanying notes are an integral part of these financial statements.

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Amount</b>	<b>Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental revenues				
Michigan transportation fund	\$ 18,100,000	\$ 15,750,000	\$ 15,802,755	\$ 52,755
Federal and state sources	8,000,000	9,300,000	9,240,186	(59,814)
State trunk line maintenance	3,380,000	3,490,000	3,586,575	96,575
<b>Total intergovernmental revenues</b>	<b>27,480,000</b>	<b>28,540,000</b>	<b>28,629,516</b>	<b>89,516</b>
Charges				
Township	4,600,000	6,200,000	5,237,305	(962,695)
<b>Total charges</b>	<b>4,600,000</b>	<b>6,200,000</b>	<b>5,237,305</b>	<b>(962,695)</b>
Other revenues				
Salvage sales			26,485	
Interest earned			139,561	
Other revenues			327,997	
<b>Total other revenues</b>	<b>394,150</b>	<b>249,000</b>	<b>494,043</b>	<b>245,043</b>
<b>Total revenues</b>	<b>32,474,150</b>	<b>34,989,000</b>	<b>34,360,864</b>	<b>(628,136)</b>
<b>Expenditures</b>				
Primary road				
Construction and heavy maintenance			11,771,745	
Maintenance			4,140,485	
<b>Total primary road</b>	<b>15,133,000</b>	<b>16,600,000</b>	<b>15,912,230</b>	<b>687,770</b>
Local road				
Construction and heavy maintenance			8,226,664	
Maintenance			5,330,442	
Local bridge			44,874	
Local paving			1,408,766	
Local gravel			4,822	
Local culverts			155,649	
<b>Total Local road</b>	<b>10,390,000</b>	<b>12,927,000</b>	<b>13,171,317</b>	<b>(244,317)</b>
State trunk line maintenance	3,380,000	3,490,000	3,532,473	(42,473)
Other				
County drain assessments			64,081	
Pit maintenance			48,578	
Equipment expenses, net			(844,112)	
Administrative expenses, net			2,300,813	
Capital outlay, net			784,288	
Depreciation expense			(1,465,347)	
Debt service				
Principal			670,026	
Interest			101,787	
<b>Total other</b>	<b>3,327,000</b>	<b>2,748,000</b>	<b>1,680,094</b>	<b>1,087,906</b>
<b>Total expenditures</b>	<b>32,230,000</b>	<b>35,765,000</b>	<b>34,276,114</b>	<b>1,488,886</b>
<b>Revenues over (under) expenditures</b>	<b>244,150</b>	<b>(776,000)</b>	<b>84,750</b>	<b>860,750</b>
Other financing sources				
Sales of capital assets			41,896	
Sale of land			279,850	
<b>Total other financing sources (uses)</b>	<b>256,184</b>	<b>322,000</b>	<b>321,746</b>	<b>254</b>
<b>Net changes in fund balance</b>	<b>500,334</b>	<b>(454,000)</b>	<b>406,496</b>	<b>860,496</b>
<b>Fund balance, beginning of year</b>	<b>8,090,942</b>	<b>8,090,942</b>	<b>8,090,942</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 8,591,276</b>	<b>\$ 7,636,942</b>	<b>\$ 8,497,438</b>	<b>\$ 860,496</b>

The accompanying notes are an integral part of these financial statements.

**OTTAWA COUNTY ROAD COMMISSION**  
**(a Component Unit of Ottawa County)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Ottawa County Road Commission (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

***Reporting Entity***

The Ottawa County Road Commission is a discretely presented component unit of Ottawa County, Michigan. The Commission was established pursuant to (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the Ottawa County Board of Commissioners.

The criteria established under generally accepted accounting principals for determining the reporting entity includes a significant operational or financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the Ottawa County Road Commission. The Commission has no component units.

The Road Commission general fund is used to control the expenditures of Michigan Transportation Fund monies and other grants and charges, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Commission.

***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the primary government (the Commission). *Governmental activities* are reported in total. The Commission has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the governmental funds balance sheet and the statement of net assets as well as the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes. The Commission only utilizes a general fund.

The Commission reports the following major governmental funds:

The *General Fund* is the government's only operating fund. It accounts for all financial resources of the general government.



**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

***Measurement Focus and Basis of Accounting***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The general fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for charges for services, interest and grant revenues which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include compensated absences, claims, and principal and interest on long-term debt which are recognized when due.

The general fund is accounted for on a spending or "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

The general fund operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, it is said to present a summary of sources and uses of "available, spendable resources" during a period.

***Budgets and Budgetary Accounting***

The Road Commission's procedures for establishing budgetary data are as follows:

- The Managing Director submits a proposed budget for the upcoming year to the Road Commission.
- The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Commissioners.
- The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.
- The Road Commission adopts a budget for the general fund by means of an appropriations act, on a departmental activity basis in summary form.
- Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts. The budget is prepared on the modified accrued basis of accounting.

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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***Cash and Investments***

Cash and investments consist of the balance of cash, check, savings, pooled investment and mutual fund accounts. The Commission invests its cash and investment through Michigan financial institutions and the Ottawa County Treasurer. Michigan law authorizes the Commission to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

***Receivables***

Receivables consist primarily of the balance of fuel tax and trunkline maintenance fees due from the State of Michigan and balances due from local units of government for services provided. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year end).

***Inventory***

Inventory, consisting of various operating parts, supplies, and road material is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

***Capital Assets***

Capital assets, which include land, property, equipment, and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Only infrastructure assets acquired or donated since 1980 are included in the Commission capital asset balance. Donated capital assets are valued at their estimated fair market value on the date received.

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**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the Michigan Department of Transportation depreciation schedules for equipment and the straight-line method for infrastructure over the following estimated useful lives:

	<u><b>Years</b></u>
Buildings and improvements	25-50
Equipment	3-15
Infrastructure	30

***Compensated Absences***

Under the Commission's personnel policy and contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and sick leave under formulas and conditions specified in the policy and contracts. Accumulated leave of the general fund is recorded on the statement of net assets and not on the general fund balance sheet because it is not expected to be liquidated with expendable available financial resources.

***Advances***

Advances consist of monies provided by the Michigan Department of Transportation (MDOT) to provide cash flow to finance equipment and services provided by the Commission on MDOT trunkline designated roads. The cost of equipment and services used to provide these services is billed to the MDOT periodically.

***Long-Term Obligations***

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures.

***Fund Equity/Net assets***

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent amounts set aside by the Board for tentative plans for future use.

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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**2. CASH AND INVESTMENTS**

Cash and investments reported on the financial statements consist of the following balance at year end:

	<b><u>Cash and Investments</u></b>
Deposits	\$1,894,293
Certificates of deposit	<u>1,635,000</u>
Cash and investments	<u>\$3,529,293</u>

The checking, savings and certificates of deposits are in financial institution located in Michigan. All accounts are in the name of the Ottawa County Treasurer for the Commission and a specific fund or common account. They are recorded in Commission records at fair value.

***Deposit risk***

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of year end the Commission's bank balance was \$3,540,638. Exposure to custodial credit risk can be determined for Ottawa County as a whole, but cannot be separately identified for the Commission

**3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

State law provides that the Commission shall not incur expenditures in excess of the amount appropriated for the general fund.

In the body of the financial statements, the Commission's actual expenditures and budgeted expenditures for the general fund have been shown on a departmental activity basis.

During the year the Commission incurred expenditures in the general fund which were in excess of the amounts appropriated as follows:

	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
<b>General fund</b>			
Public Works			
Local road	\$12,927,000	\$13,171,317	\$(244,317)
State trunk line maintenance	3,490,000	3,532,473	(42,473)

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**4. CAPITAL ASSETS**

Capital asset activity for the year was as follows:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2008</u>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land and right-of-way	\$ 1,367,182	\$ -	\$ -	\$ 1,367,182
<b>Total capital assets, not being depreciated</b>	<u>1,367,182</u>	<u>-</u>	<u>-</u>	<u>1,367,182</u>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	11,167,430	-	-	11,167,430
Equipment	18,078,388	784,268	659,048	18,203,608
Infrastructure				
Primary	128,150,785	11,771,745	-	139,922,530
Local	89,999,713	6,226,664	-	96,226,377
Less: accumulated depreciation	<u>92,733,216</u>	<u>9,037,005</u>	<u>607,731</u>	<u>101,162,490</u>
<b>Net capital assets, being depreciated</b>	<u>154,663,100</u>	<u>9,745,672</u>	<u>51,317</u>	<u>164,357,455</u>
<b>Governmental Activities capital assets, net</b>	<u><b>\$156,030,282</b></u>	<u><b>\$9,745,672</b></u>	<u><b>\$ 51,317</b></u>	<u><b>\$165,724,637</b></u>

Depreciation expense of \$9,037,005 was charged to the public works function.

**5. LONG-TERM DEBT**

The following is a summary of long-term debt activity and balances of the Commission for the year:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
\$4,500,000 Michigan Transportation Fund bonds, due in annual installments of \$450,000 through 2011; interest at 3.35% to 3.375%.	\$ 1,800,000	\$ -	\$450,000	\$ 1,350,000	\$450,000
\$308,001 Equipment Lease, due in monthly installments of \$3,807 through April 2008 including interest at 3.15%; final payment of \$134,250 due in May 2008.	134,250	-	134,250	-	-

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
\$273,395 Equipment Lease, due in monthly installments of \$2,046 through August 2008 including interest at 3.40%; final payment of \$204,322 due in September 2008.*	\$ 204,322	\$ -	\$ 204,322	\$ -	\$ -
\$160,195 Equipment Lease, due in monthly installments of \$1,239 through May 2010 including interest at 3.80%; final payment of \$121,535 due in June 2010.	141,221	-	9,295	131,926	10,030
\$214,395 Equipment Lease, due in monthly installments of \$2,201 through March 2011 including interest at 4.85%; final payment of \$135,707 due in April 2011.	190,963	-	16,706	174,257	18,404
\$177,952 Equipment Lease, due in monthly installments of \$3,385 through February 2012 including interest at 5.33%.	162,209	-	32,769	129,440	34,558
\$79,500 Equipment Lease, due in monthly installments of \$1,440 through August 2010 including interest at 8.83%, final payment of \$39,707 due in September 2010 .	77,065	-	12,148	64,917	13,265
<b>Total Installment debt</b>	<b>2,710,030</b>	<b>-</b>	<b>859,490</b>	<b>1,850,540</b>	<b>526,257</b>
Compensated absences	723,457	238,622	284,170	677,909	-
Post employment benefits liability	-	169,346	-	169,346	-
Claims Payable	123,163	185,040	111,030	197,173	-
<b>Total Governmental Activities</b>	<b>\$3,556,650</b>	<b>\$593,008</b>	<b>\$1,254,690</b>	<b>\$2,894,968</b>	<b>\$526,257</b>

\*The purchase option for this equipment was not exercised in the amount of \$189,464 and the associated equipment was returned to the vendor concluding the lease agreement.

**OTTAWA COUNTY ROAD COMMISSION**  
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**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Following is a summary of future principal maturities and interest requirements on installment debt:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 526,257	\$ 68,268
2010	679,312	48,349
2011	624,973	20,562
2012	19,998	312
<b>Total</b>	<u>\$1,850,540</u>	<u>\$137,491</u>

**6. RISK MANAGEMENT**

The Road Commission is exposed to lawsuits and claims made by individuals. In response to this exposure, the Road Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP). Participation in the MCRCSIP requires payment of premiums to the pool. The pool purchases commercial reinsurance on behalf of its members. Due to the Road Commission's participation in this pool, the liability of the Road Commission relative to claims covered by the pool is limited to \$25,000 per occurrence.

The Road Commission's self-funded workers' compensation program contains stop-loss and coverage of \$300,000 per incident. This limits the commissions' responsibility for payment to \$300,000 per workers' compensation claim.

Settled claims for the Road Commission have not exceeded coverage during the past three years. There have been no significant reductions in insurance coverage during the past year. The Road Commission's self-funded insurance claims that have been incurred through the end of the year include both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the government-wide statements as they are not expected to be liquidated with expendable available financial resources. The Commission is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. The Commission has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

The changes in the claims liability for the years ended September 30, 2008 and 2007 are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
<b>MRCSCR Liability plan</b>				
2007	\$81,007	\$29,623	\$34,726	\$75,905
2008	75,905	96,579	27,896	144,588
<b>Workers' Compensation Plan</b>				
2007	53,411	93,751	99,904	47,258
2008	47,258	88,461	83,134	52,585

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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**7. RETIREMENT PLAN**

***Defined Benefit Pension Plan***

The Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Commission employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917

The Commission is required to contribute at an actuarially determined rate of 14.19% to 38.63% depending on bargaining unit; the current year amount was \$976,575. Participating employees are not required to contribute to the plan. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Commission, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Commission.

For the year ended September 30, 2008, the Commission's annual pension cost of \$976,575 for MERS was equal to the Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 28 years.

**Three-Year Trend Information**

<b>Fiscal Year</b>	<b>Annual Pension</b>	<b>Percentage of APC</b>	<b>Net Pension</b>
<b><u>Ending</u></b>	<b><u>Cost (APC)</u></b>	<b><u>Contributed</u></b>	<b><u>Obligation</u></b>
9/30/06	\$850,700	100%	\$ -
9/30/07	943,400	100%	-
9/30/08	976,575	100%	-



**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	\$29,768,361	\$37,092,752	\$7,324,391	80%	\$6,478,421	113%
12/31/06	31,130,701	38,533,848	7,403,147	81%	6,272,650	118%
12/31/07	32,465,731	41,829,814	9,364,083	78%	6,329,343	118%

**Section 457 Deferred Compensation Plan**

The Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Commission's financial statements.

**8. POST EMPLOYMENT BENEFITS**

The Commission administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health insurance premiums for retirees until age 65 (Medicare eligible). Benefit provisions are established through negotiations between the Commission and bargaining units and employee groups. The Commission makes 100% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report and a legal trust has not been established for the plan.

The Commission's contribution is based on pay-as-you-go financing requirements. For the current year the annual required contribution (ARC) was \$217,453 while actual contributions were \$48,107.

The Commission's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The first actuarial valuation of the Retiree Health Plan was performed as of January 1, 2008 with the requirements of GASB Statement #45 being implemented prospectively. Fiscal year 2008 is the first year for which an actuarially required contribution (ARC) has been determined. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission OPEB obligation to the plan.

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Annual required contribution	\$ 217,453
Interest on Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	217,453
Contribution made	48,107
Increase in net OPEB obligation	169,346
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 169,346</u>

**Three-Year Trend Information**

<b>Fiscal Year</b>	<b>Annual Required</b>	<b>Percentage of ARC</b>	<b>Net OPEB</b>
<b>Ending</b>	<b>Contribution (ARC)</b>	<b>Contributed</b>	<b>Obligation</b>
9/30/08	\$217,453	22%	\$169,346

**Schedule of Funding Progress**

<b>Actuarial</b>	<b>Market</b>	<b>Actuarial</b>	<b>Unfunded</b>	<b>Funded</b>	<b>Covered</b>	<b>UAAL as a</b>
<b>Valuation</b>	<b>Value of</b>	<b>Accrued</b>	<b>AAL</b>	<b>Ratio</b>	<b>Payroll</b>	<b>Percentage</b>
<b>Date</b>	<b>Assets</b>	<b>Liability (AAL)</b>	<b>(UAAL)</b>	<b>Total</b>	<b>(c)</b>	<b>of Covered</b>
	<b>(a)</b>	<b>(b)</b>	<b>(b-a)</b>			<b>Payroll</b>
						<b>((b-a)/c)</b>
1/1/08	\$ -	\$1,835,591	\$1,835,591	0%	\$6,329,343	29%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Commission is currently funding the plan on a pay as you go basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method, level dollar, closed amortization method, and an amortization period of 30 years were utilized. The actuarial assumptions included a 0% return on plan net assets as the plan is not funded, a discount rate of 4%, 10% inflation in 2008 graded to 5% in 2013, with implicit subsidy provided.

**9. SINGLE AUDIT**

**OTTAWA COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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Governmental and certain other entities, which expend \$500,000 or more of direct federal dollars, are subject to a single audit in accordance with the OMB Circular A- 133. The Road Commission expended \$9,240,186 of federal/state dollars, which were administered by the Michigan Department of Transportation (MDOT). The monies will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$500,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

**10. LITIGATION**

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

**11. CONTINGENCIES**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

**GENERAL FUND  
SCHEDULES**

**OTTAWA COUNTY ROAD COMMISSION**  
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**SCHEDULE OF CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Fund balances, beginning of year</b>	\$ 5,144,012	\$ 72,599	\$ 2,874,331	\$ 8,090,942
Revenues and other financing sources	23,797,298	10,563,566	-	34,360,864
Expenditures	<u>21,162,097</u>	<u>13,766,901</u>	<u>(652,884)</u>	<u>34,276,114</u>
Revenues over (under) expenditures	<u>2,635,201</u>	<u>(3,203,335)</u>	<u>652,884</u>	<u>84,750</u>
Other financing sources (uses)	<u>(3,132,000)</u>	<u>3,132,000</u>	<u>321,746</u>	<u>321,746</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(496,799)</u>	<u>(71,335)</u>	<u>974,630</u>	<u>406,496</u>
<b>Fund balances, end of year</b>	<u>\$ 4,647,213</u>	<u>\$ 1,264</u>	<u>\$ 3,848,961</u>	<u>\$ 8,497,438</u>

**OTTAWA COUNTY ROAD COMMISSION**  
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**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Revenues</b>				
Michigan Transportation Fund				
Engineering	\$ 6,400	\$ 3,600	\$ -	\$ 10,000
Primary road	9,001,520	-	-	9,001,520
Local road	-	3,973,875	-	3,973,875
Primary urban road	1,775,399	-	-	1,775,399
Local urban road	-	977,914	-	977,914
Snow removal	38,428	25,619	-	64,047
Total Michigan Transportation Fund	<u>10,821,747</u>	<u>4,981,008</u>	<u>-</u>	<u>15,802,755</u>
 Federal and state sources	9,216,033	24,153	-	9,240,186
Trunk line maintenance	3,586,575	-	-	3,586,575
Township charges	-	5,237,305	-	5,237,305
Salvage sales	26,485	-	-	26,485
Interest earned	90,714	48,847	-	139,561
Other revenues	55,744	272,253	-	327,997
Total Revenues	<u>23,797,298</u>	<u>10,563,566</u>	<u>-</u>	<u>34,360,864</u>
 Other financing sources (uses)				
Sales of capital assets	-	-	41,896	41,896
Sale of land	-	-	279,850	279,850
Transfer	(3,132,000)	3,132,000	-	-
Total other financing sources (uses)	<u>(3,132,000)</u>	<u>3,132,000</u>	<u>321,746</u>	<u>321,746</u>
 <b>Total revenues and other financing sources</b>	<u>\$ 20,665,298</u>	<u>\$ 13,695,566</u>	<u>\$ 321,746</u>	<u>\$ 34,682,610</u>

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**SCHEDULE OF EXPENDITURES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Expenditures</b>				
Primary road				
Construction and heavy maintenance	\$ 11,771,745	\$ -	\$ -	\$ 11,771,745
Maintenance	4,140,485	-	-	4,140,485
Local road				
Construction and heavy maintenance	-	6,226,664	-	6,226,664
Maintenance	-	5,330,442	-	5,330,442
Local bridges	-	44,874	-	44,874
Local paving	-	1,408,766	-	1,408,766
Local gravel	-	4,922	-	4,922
Local chip seal	-	155,649	-	155,649
State trunk line maintenance	3,532,473	-	-	3,532,473
Other				
County drain assessments	64,081	-	-	64,081
Pit maintenance	48,578	-	-	48,578
Equipment expense, net	(404,330)	(439,782)	-	(844,112)
Administrative expense, net	1,265,447	1,035,366	-	2,300,813
Capital outlay, net	-	-	784,268	784,268
Depreciation	(28,195)	-	(1,437,152)	(1,465,347)
Debt service				
Principal	670,026	-	-	670,026
Interest	101,787	-	-	101,787
<b>Total expenditures</b>	<u>\$ 21,162,097</u>	<u>\$ 13,766,901</u>	<u>\$ (652,884)</u>	<u>\$ 34,276,114</u>

**OTTAWA COUNTY ROAD COMMISSION**  
(a Component Unit of Ottawa County)

**SCHEDULE OF ADMINISTRATIVE EXPENDITURES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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**Administrative expenditures**

Salaries	
Administrative	\$ 560,759
General engineering	183,768
Inspection and permits	171,492
Traffic	88,865
Plats and drains	32,057
Weighmaster	17,056
Videotaping	10,453
Watershed	1,999
Asset management	2,150
Advertising	6,391
Commissioners	
Salaries	24,500
Other	5,354
Contractual services	68,864
Depreciation	33,070
Engineering supplies	1,809
Medical	124
Communications	40,032
Maintenance of office equipment	36,312
Office supplies	24,229
Postage	6,251
Dues and subscriptions	68,115
Travel and conferences	29,040
Legal and professional	53,564
Contract engineering	12,356
Building expense	16,037
Equipment expense	72,197
Distributive expense	<u>918,964</u>
	<u>\$ 2,485,808</u>



## **CONTROL AND COMPLIANCE SECTION**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

February 27, 2009

Ottawa County Road Commission  
Board of Commissioners  
Grand Haven, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Orlando Haefner LLC*



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February 27, 2009

Members of the Board  
Ottawa County Road Commission  
Grand Haven, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Ottawa County Road Commission (the Commission), a component unit of Ottawa County, Michigan, for the year ended September 30, 2008, and have issued our report thereon dated February 27, 2009. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 24, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance and such provisions.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to Commissioner Bruursema and in our engagement letter dated November 24, 2008.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the useful lives of capital assets, the allowance for uncollectible accounts receivable, and the valuation of the pension and other post employment benefit plan obligations.

Management's estimate of the useful lives and uncollectible accounts is based on previous history and the estimate of pension and other post employment benefit plan obligations is based on an actuarial valuation of the Plans. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 27, 2009.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We noted the following additional item during the performance of our audit:

During our review of internal controls over the disbursement process we noted that the staff responsible for the input of invoices and generation of checks was also authorized to apply signatures to the checks in the absence of the Finance Director. The least desirable system of internal controls allows for one individual to possess, account for, and reconcile an organization's assets. We suggest that Commission policy be modified to require that signatures on checks be applied by someone other than the staff responsible for the input of invoices and generation of checks.

This information is intended solely for the use of the Board and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Orlando Haefner LLC*